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Testimony of NRG Energy, Inc.
Before the Connecticut General Assembly Energy and Technology Committee
In opposition to:

RB 6526, An Act Concerning Electric Suppliers

March 4, 2021

Senator Needleman, Representative Arconti and distinguished members of the Connecticut General Assembly Joint Committee on Energy and Technology:

My name is Frank Lacey, and I am the president of Electric Advisors Consulting, testifying on behalf of NRG. I am here today in opposition to RB 6526. While NRG is fully supportive of the intent in many of the provisions of this bill, we believe that the legislature is approaching these issues in a manner which may cause more harm to customers than good. In particular, I will be focusing on the changes in Section 7 (a).

Just over 20 years ago, the Connecticut General Assembly determined that competition would provide increased value and benefits to the state's electricity consumers that competition is philosophically a better approach for setting energy rates than a regulatory approach. NRG agrees with that determination. However, Connecticut has never developed a truly competitive market, as the electric distribution utilities continue to subsidize the costs to serve customers who take standard service with distribution rates. The proposed changes to Section 7 will give the Public Utilities Regulatory Authority ("PURA") unbridled flexibility in determining whether a supplier's rates are inappropriate and condition the supplier's license on this arbitrary judgement. While NRG does not accept the direct comparison of competitive supplier prices to utility standard offer prices for any meaningful purposes, due to the wide variance of product types[1], many others wholly endorse that comparison as valid. As a result, we believe this language is very harmful to customers and to the competitive energy markets in Connecticut.

In Connecticut, a standard service customer pays the utility a Generation Charge, which is the cost for generation procured in the standard service auctions; the FMCC Charge which accounts for some of the costs from ISO-NE and an energy adjustment clause, or energy true-up, if applicable. My testimony is not about these costs, however. It is about the costs that the Connecticut electric distribution utilities do not include in their standard service rates. It is the absence of the actual embedded costs of standard service not being

[1] Competitive supplier products include electric generation commodity supply along with bundled services like voluntary renewable, smart devices, home warranty plans, rewards points, etc. as well as varying terms of service that may extend for up to three (3) years versus utility standard service that represents a "plain-vanilla" product for a six (6) period.

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unbundled and properly allocated in the rate structure, that makes the language in Section 7 problematic and deeply troubling.

More specifically, the utilities in Connecticut do not include any costs to serve or service their customers in their standard service rates. For example, the cost to generate and send a bill for standard service to a customer is paid fully by distribution ratepayers. The operational cost related to technology hardware, IT services, facilities and human resources is currently borne by distribution ratepayers. The cost of nearly every employee engaged in the provision of standard service is paid by distribution customers. Utilities in Connecticut do not even allocate accounting resources to count the hundreds of millions of dollars in revenues received by its standard service business. Even the people that count the standard offer revenues are paid with distribution rates.

The totality of "costs to serve and service" those customers are buried in distribution rates, paid by all distribution customers, including distribution customers who receive competitive energy supply and services. In other words, the customers who shop for electricity are subsidizing those who do not shop for electricity. The customers who stay on standard service see an artificially depressed price for the generation supply portion of their electricity bill as it does not include any costs to serve the customers. This is an inequitable, unearned advantage that utilities hold in the energy markets and until it is corrected, the proposed changes in Section 7 will be very damaging to those markets.

The National Association of Regulatory Utility Commissioners ("NARUC"), the association of state utility commissioners, identified this problem many years ago. NARUC acknowledged that "utilities have a natural business incentive to shift costs from non-regulated competitive operations to regulated monopoly operations since recovery is more certain with captive ratepayers." In order to protect ratepayers, costs should be fully allocated to each utility business "to lessen the possibility of subsidization in order to protect monopoly ratepayers and to help establish and preserve competition in the electric generation and the electric and gas supply markets.[2]" In Connecticut, distribution rates higher than they should be (and they continue to rise), but there is no competition for distribution services. Because they are subsidized, standard service rates are always below market-price so they are able to hold the competitive suppliers at bay. The utilities are allowed to have their cake and eat it too.

Cost allocation is not a novel concept in regulated rate making. It occurs every day. For example, the utilities will allocate costs of wires between residential and business customers. They allocate salaries and O&M expenses between residential and business customers. However, they fail to allocate any costs between distribution and standard service customers. This is contrary to fundamental rate making principles and the practice should not be allowed to continue in Connecticut.

[2] NARUC, http://pubs.naruc.org/pub/539BF2CD-2354-D714-51C4-0D70A5A95C65

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The magnitude of these unallocated costs is meaningful and has a significant impact on the competitive retail electric market. To further examine this market impact, NRG commissioned a forensic accountant to analyze the costs that should be allocated at utilities in Pennsylvania and Maryland, and found that the subsidy was equal to 1.25 cents per kWh in Pennsylvania and 1.18 cents per kWh in Maryland. Similar studies performed in other states show the magnitude of these subsidies to be between $0.01 to $0.02 cents per kWh. It is important to realize that correcting this problem does not indicate a rate increase for standard service customers. It just means that a portion of the distribution rate would be re-classified as part of the standard service rates. The total costs are the same. The charges would just go to different cost "buckets".

If passed, this legislation would give the PURA the authority to condition a supplier's ability to be licensed and conduct business in the state based on arbitrary standard of proof. The standard is judgmental and is inappropriate in a competitive market. This legislation allows the authority to adopt a "guilty until proven innocent" approach where the supplier might have to prove that its costs were not priced higher than that of a product that is heavily subsidized by a regulated business as well as a totally different product type, as previously described.

I understand we are not legislating pro rata cost allocations today. But until standard service prices reflect the true costs to serve and service customers, any legislation that conditions licensing and operations on an arbitrary evaluation of market pricing is anti-competitive, will have a chilling effect on state's business landscape, as well as have negative ramifications on the electricity markets in Connecticut.

Companies like NRG can only be responsive to customer preferences when the retail electricity market allows innovation in product offerings to flourish. Policymakers should leverage the power of customer choice and competition to achieve desired policy outcomes, not retreat to outmoded, inflexible utility models. This is important because our clean energy future needs innovation in policy and market structure to incentivize the adoption of next generation technologies.

The energy landscape is changing. The changes are being driven by environmental opportunities, federal policy further opening markets and state initiatives driving innovation. Layering on additional regulatory requirements as the answer to every matter that arises in the retail energy marketplace will have the unintended consequence of making it even more difficult for customers to shop for energy services, and more costly for retail suppliers to serve them. This is the age of Amazon.com consumerism. Consumers demand convenience and expeditiousness in their purchases for goods and services. Completing the job of restructuring the electric market would remedy the root causes of many of the concerns HB 6526 seeks to address and will facilitate the achievement of many of Connecticut's environmental and policy goals. NRG would be happy to delve further into a discussion of restructuring at a future opportunity.

For the foregoing reasons, NRG respectfully opposes RB 6526, An Act Concerning Electric Suppliers.